

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 IO-10 NEA-06 ISO-00 SP-02 AID-05 EB-07

NSC-05 RSC-01 CIEP-01 SS-15 STR-01 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-02 H-01 /081 W
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P 060842 Z DEC 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8935

INFO AMEMBASSY DACCA PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, BG

SUBJECT: PROPOSED ADB SUPPLEMENTARY LOAN FOR EST ZONE POWER
PROJECT (BANGLADESH)

REF A) MANILA 11275 (1973) B) STATE 262054 (NOTAL)

SUMMARY: ADB MANAGEMENT PROPOSES \$4.55 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF BANGLADESH TO
FINANCE FOREX COST OVERRUN OF BANGLADESH WEST ZONE POWER
PROJECT. NAC GUIDANCE IS REQUESTED.

1. ADB DOC R122-74 WITH ATTACHMENTS DESCRIBING PROPOSED
SUPPLEMENTARY LOAN POUCHED ADDRESSEES DEC 2. BOARD
CONSIDERATION SCHEDULED DEC 19.

2. ADB MANAGEMENT PROPOSING \$4.55 MILLION LOAN FROM SPECIAL
FUNDS RESOURCES TO GOVT OF BANGLADESH. PROCEEDS WILL FINANCE
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FOREIGN CURRENCY COST OVERRUN OF 40 MW GAS TURBINE POWER PLANT IN BHERAMARA AND SPARES AND EQUIPMENT FOR ASSOCIATED FACILITIES IN WEST ZONE POWER SYSTEM PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT INTEREST. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER AND BANGLADESH POWER DEVELOPMENT BOARD (BPDB) THE EXECUTING AGENCY. PROCEEDS OF BANK LOAN TO BE MADE AVAILABLE TO BPDB AT 7.5 PERCENT INTEREST RATE REPAYABLE OVER 25 YEARS.

3. ON 17 OCT 1973, BANK APPROVED TWO LOANS AGGREGATING \$10.45 MILLION (\$1.2 MILLION ORDINARY CAPITAL AND \$9.25 MILLION SPECIAL FUNDS) FOR SUBJECT PROJECT, INCLUDING PROJECT-ORIENTED CONSULTING SERVICES. AT SAME TIME, BANK APPROVED \$250,000 TECHNICAL ASSISTANCE (TA) GRANT FOR CONSULTANT SERVICES TO ASSIST IN IMPROVING BPDB'S MANAGEMENT AND FINANCE. IT HAD BEEN EXPECTED THAT TENDER DOCUMENTS (PREPARED IN 1969 BY ACRES INTERNATIONAL) AND INVITATIONS TO CONSULTANTS COULD BE FINALIZED AND ISSUED BY SEPT 1973 AND CONTRACTS SIGNED BY DEC 1973. HOWEVER, IN VIEW BPDB'S INADEQUATE EXPERIENCE IN SUCH WORK AND UNFAMILIARITY WITH BANK PROCEDURES, CONTRACTS WITH CONSULTANTS (SOFRELEC OF FRANCE) AND SUPPLIER (SUMITOMO SHOJI KAISHA LTD. OF JAPAN), WERE NOT SIGNED UNTIL NOV 1974.

4. BID OPENING IN JUNE 1974 FOR POWER PLANT ON TURN-KEY BASIS INDICATED FOREX COST EXCEEDING TOTAL AMOUNT OF BANK LOANS. MOREOVER, FOREX COST OF SPARES AND OTHER EQUIPMENT FOR ASSOCIATED FACILITIES WAS EXPECTED TO INCREASE DUE TO ACCELERATED DETERIORATION DURING PAST 18 MONTHS AND ALSO TO GENERAL PRICE RISE. TOTAL FOREX COMPONENT IS NOW ESTIMATED AT \$15.0 MILLION. OF \$4.55 MILLION INCREASE, \$4.0 MILLION IS DUE TO INCREASED COST OF GAS TURBINE STATIONS AND \$0.55 MILLION IN COST OF REHABILITATION OF GAS TURBINES AT KULNA AND IN SUBSTATION AND COMMUNICATION EQUIPMENT PROPOSED UNDER PROJECT. LOCAL CURRENCY EXPENDITURE IS ALSO ESTIMATED TO HAVE RISEN FROM \$7.05 MILLION TO ABOUT \$10.0 MILLION EQUIVALENT, DUE TO DOMESTIC PRICE INCREASES AND INCREASED DUTIES AND TAXES ON IMPORTED EQUIPMENT GOVT WILL MAKE AVAILABLE LOCAL CURRENCY FUNDS THROUGH INTEREST -FREE LOAN TO BPDB.
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5. SO THAT GAS TURBINE STATION CONTRACT COULD BE NEGOTIATED WITH LOWEST BIDDER, AND FINALIZED BEFORE EXPIRATION OF BID VALIDITY ON 30 SEPT., BANK APPROVED GOVT REQUEST TO NEGOTIATE AND FINALIZE CONTRACT ON UNDERSTANDING THIS CONCURRENCE WOULD NOT COMMIT BANK BEYOND AMOUNT ALREADY APPROVED. BANK AGREED TO REAPPRAISE PROJEC, AND IF FOUND SATISFACTORY,

IT WOULD PROPOSE SUPPLEMENTARY FINANCING TO BOARD (ADB DOC IN95-74). GAS TURBINE INSTALLATION IS NOW EXPECTED TO BE COMPLETED BY DEC 1975; REHABILITATION AND SYSTEM IMPROVEMENT BY MARCH 1976, OR DELAY OF 15 MONTHS IN ORIGINALLY ENVISAGED PROJECT IMPLEMENTATION.

6 IN VIEW BPDB'S DETERIORATION FINANCIAL POSITION, GOVT APPROVED 100 PERCENT INTERIM TARIFF INCREASE EFFECTIVE 1 DEC AND HAS ASSURED THAT ACCOUNTS RECEIVABLE WILL BE REDUCED TO LEVEL OF FOUR MONTHS SALES BY END 1975. BANK HAS BEEN ASSURED THAT GOVT AND BPDB, IN CONSULTATION WITH BANK, WOULD TAKE FURTHER MEASURES TO IMPROVE BPDB'S FINANCIAL POSITION, WHEN RECOMMENDATIONS OF BANK-FINANCED CONSULTANTS IN ACCOUNTING AND FINANCE ARE AVAILABLE. ALSO, MODIFICATION AND IMPROVEMENT OF BPDB WILL BE CONSIDERED WHEN MANAGEMENT EXPERT UNDER BANK'S TA IS APPOINTED.

7. PROJECT'S ECONOMIC RATE OF RETURN IS NOW ESTIMATED AT 5 PERCENT COMPARED WITH 12 PERCENT AT TIME OF PROJECT APPRAISAL. WHILE FURTHER TARIFF INCREASE OF ABOUT 10 PERCENT WOULD IMPROVE RATE OF RETURN TO ABOUT 12 PERCENT, BANK EXPECTS TARIFF REVISION OF MORE THAN THIS MAGNITUDE WOULD BE CONSIDERED IN NEAR FUTURE IN LIGHT OF FINDINGS OF BANK'S CONSULTANTS (SUPPLEMENTARY LOAN AGREEMENT, SCHEDULE 4, PARA 6).

8. JUSTIFICATION OF PROJECT AS PERCEIVED AT TIME OF ORIGINAL APPRAISAL REMAINS UNCHANGED. FURTHERMORE, URGENCY AND NEED HAS BEEN REINFORCED BY SUBSEQUENT UNEXPECTED DEPLETION OF GENERATING CAPABILITY AND UNSATISFACTORY WORKING OF NEWLY ESTABLISHED MAJOR GENERATION FACILITY AT KHULNA. CONSIDERING BANGLADESH'S CRITICAL ECONOMIC SITUATION, DIFFICULT BALANCE OF PAYMENT POSITION, AND NON-AVAILABILITY OF OTHER ALTERNATIVE LIMITED OFFICIAL USE

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SOURCES OF FINANCE, BANK PROPOSES SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES. IN VIEW U.S. POLICY ON COST OVERRUNS (REF B), USADB REQUESTS NAC GUIDANCE.

9. REQUEST DACCA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. ARNOLD

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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